

## Message Text

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INFO OCT-01 EA-06 IO-10 ISO-00 INRE-00 NSCE-00 SSO-00

USIE-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NEA-10 NSAE-00 OPIC-03 SP-02 TRSE-00 CIEP-01

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E.O. 11652: N/A

TAGS: ETRD; OECD

SUBJECT: HIGH LEVEL GROUP ON COMMODITIES

1. SUMMARY: FIRST MEETING OF OECD HIGH LEVEL GROUP ON COMMODITIES (HLGC) JULY 1 AND 2 WAS CHARACTERIZED BY CONSIDERABLE DIVERGENCE OF VIEWS BOTH ON HOW TO PROCEED IN GENERAL AND ON APPROACH TO SPECIFIC ISSUES MENTIONED IN MINISTERIAL COMMUNIQUE. WHILE SOME MEMBERS OF GROUP WISHED TO ACHIEVE CONSENSUS ON PROPOSALS FOR PRESENTING AT UNGA SPECIAL SESSION, MAJORITY FAVORED MORE DELIBERATE ANALYTICAL APPROACH FINALLY ADOPTED. FOR NEXT MEETING, WHICH WILL TAKE PLACE IN EARLY FALL, GROUP COMMISSIONED SECRETARIAT TO PREPARE SERIES OF PROFILES ON MARKET, TRADE AND INVESTMENT PROBLEMS FOR 7 COMMODITIES CONSIDERED WORTHY OF IN-DEPTH STUDY: COPPER, COCOA, HARD FIBERS, RUBBER, TEA, JUTE AND SUGAR. IN ADDITION GROUP AGREED XCSS SHOULD CONSIDER WHERE FURTHER WORK ON EXPORT INCOME STABILIZATION SHOULD BE CARRIED OUT, AND AGREED TO TAKE UP INVESTMENT AND OTHER PROBLEMS ON BASIS OF SUBMISSIONS FROM INTERESTED DELEGATIONS. REGARDING SPECIFIC MECHANISMS, VIEWS RANGED FROM GERMAN DEL'S POSITION THAT STABILIZATION OF EXPORT EARNINGS WAS ONLY IMPORTANT APPROACH, AND SIMILAR FRENCH VIEW WITH RESPECT TO MARKET STABILIZATION, TO US STRESS ON IMPROVING INVESTMENT PROSPECTS AND CONDITIONS OF MARKET AND SUPPLY ACCESS. ON BOTH LATTER SUBJECTS WAY WAS LEFT OPEN FOR US TO SUBMIT PAPERS FOR DISCUSSION AT NEXT MEETING. END SUMMARY

2. GENERAL DEBATE: CHAIRMAN (PRESTON), WHO SPOKE ALSO FOR UK, OPENED MEETING WITH PROPOSAL THAT GROUP SET INTERNAL OBJECTIVES, AGREE ON PRINCIPLES FOR USE IN UN MEETINGS, CHOOSE CRITERIA FOR SELECTING COMMODITIES FOR CONCERTED ACTION, AND OUTLINE DESIRABLE CHARACTERISTICS

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OF EXPORT INCOME STABILIZATION MECHANISMS. IDEA FOR "PRINCIPLES" RECEIVED NO SUPPORT, AND GROUP FAILED TO AGREE ON OBJECTIVES. WHILE SEVERAL DELS ARGUED FOR TWO PRONGED APPROACH DESIGNED TO COME UP WITH CONCRETE ACTIONS IN FIELDS OF PRICE AND EXPORT EARNINGS STABILIZATION IN TIME FOR PRESENTATION AT UNGA 7TH SS, MOST OTHERS FAVORED MORE DELIBERATE APPROACH NOT AIMED AT PARTICULAR MEETINGS. GERMAN DEL (KIPPER) MADE STRONG

STATEMENT AGAINST COMMODITY AGREEMENTS AND IN FAVOR OF EARNINGS STABILIZATION MEASURES, ARGUING THAT FORMER WERE OF LITTLE ADVANTAGE TO LDC'S. AUSTRALIANS, ON OTHER HAND, SAW EXPORT INCOME STABILIZATION AS ATTEMPT TO TREAT SYMPTOMS RATHER THAN CAUSES OF PROBLEMS, AND THUS AS SUPPLEMENT TO PRICE STABILIZATION MEASURES. FRENCH DEL (COLLIN) URGED GROUP TO SELECT PRODUCTS APPROPRIATE FOR COMMODITY AGREEMENTS AS FIRST STEP, GIVING INCOMES STABILIZATION AND OTHER ISSUES LOW PRIORITY.

3. US DEL (KATZ) ARGUED FOR BROADER APPROACH, INCLUDING PROBLEMS OF INVESTMENT AND MARKET/SUPPLY ACCESS, AND SUGGESTED GROUP FOCUS ON WHAT THE PROBLEMS REALLY ARE RATHER THAN TRY TO DETERMINE WHAT COMMODITIES LENT THEMSELVES TO PARTICULAR TECHNIQUES. HE PROPOSED THAT OECD RESPONSE SHOULD BE IN FORM OF A POSITIVE ATTITUDE, I.E. THAT INDUSTRIALIZED COUNTRIES RECOGNIZE PROBLEMS IN COMMODITY AREA AND BE PREPARED TO ADDRESS PROBLEMS OF ACCESS TO MARKETS AND SUPPLIES, ADEQUATE INVESTMENT, AS WELL AS MARKET AND EARNINGS STABILIZATION.

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4. MARKET INSTABILITY: DISCUSSION OF MARKET INSTABILITY REVEALED, NOT UNEXPECTEDLY, CONSIDERABLE DIVERGENCE OF VIEWS. GERMAN DEL SAID GROUP SHOULD CONCENTRATE ON UNDERLYING CAUSES OF INSTABILITY RATHER THAN FOCUS ON PRICE. HE GAVE FIRST PRIORITY TO IMPROVED INFORMATION SYSTEMS, AND BETTER CLIMATE FOR INVESTMENT. FRENCH, ON OTHER HAND, ADVOCATED IMPROVING PRICE STABILITY BY STOCKPILES AND COMMODITY AGREEMENTS AS FIRST PRIORITY. US DEL SAID IT WAS DIFFICULT TO DISCUSS MARKET STABILITY IN THE ABSTRACT. HE NOTED THAT SOME COMMODITIES WERE ALREADY BEING DISCUSSED INTERNATIONALLY AND THAT FOR SOME OTHERS THE PRODUCERS WEREN'T WILLING TO TALK TO THE CONSUMERS. HE DOUBTED THAT THE HLG COULD GO FAR BEYOND STATING THAT MARKET STABILITY NEEDS LOOKING AT IN CONCRETE CASES THAT ARISE. AUSTRALIANS DEFENDED PRODUCER COOPERATION AND SUGGESTED THAT PRICE AND MARKET

INSTABILITY USUALLY GO TOGETHER. CANADIANS URGED GROUP DRAW LESSON FROM PAST COMMODITIES AGREEMENTS THAT CONSUMERS WOULD HAVE TO ACCEPT HIGHER PRICES IF THEY EXPECTED TO BE PROTECTED AGAINST SUPPLY SHORTAGES.

5. IN VIEW OF LACK OF CONSENSUS CHAIRMAN SUGGESTED THAT GROUP SHOULD IDENTIFY A FEW COMMODITIES FOR FURTHER WORK TO STUDY CONCRETE PROBLEMS THAT EXISTED. GROUP HAD CONSIDERABLE GIVE AND TAKE ON EXACTLY WHAT PRODUCTS TO INCLUDE, WITH EC COMMISSION AND FRANCE RESISTING SUGAR, NEW ZEALAND PUSHING WOOL AND ITALY HIDES AND SKINS, AND JAPAN REFUSING TO STUDY RICE. US DEL SUGGESTED GIVING PRIORITY TO COMMODITIES COMING UP FOR INTERNATIONAL CONSIDERATION IN NEAR FUTURE, SUCH AS COCOA. GROUP AGREED ON COPPER, COCOA' HARD FIBERS, RUBBER, TEA, JUTE AND SUGAR. IT WAS CLEARLY UNDERSTOOD LIMITED OFFICIAL USE

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THAT THIS LIST DID NOT IMPLY THAT INTERNATIONAL ACTION WAS NECESSARY OR DESIRABLE ON ANY OF THESE PRODUCTS, AND THAT OTHER PRODUCTS MIGHT ALSO BE EXAMINED SUBSEQUENTLY. SECRETARIAT WILL PREPARE COMMODITY PROFILES ON THESE PRODUCTS, INCLUDING (AT US SUGGESTION) COVERAGE OF PROBLEMS RELATING TO PRODUCTION, CONSUMPTION, INVESTMENT, SUBSTITUTION, TRADE BARRIERS, ETC. FOR DISCUSSION BY GROUP AT NEXT MEETING.

6. STABILIZATION OF EXPORT RECEIPTS: GERMANS, WHO HAD HEAVILY ENDORSED GENERAL CONCEPT AS PREFERRED ALTERNATIVE TO COMMODITY AGREEMENTS, CONFINED REMARKS TO OUTLINING KEY ISSUES AND GAVE LITTLE INDICATION OF THEIR SPECIFIC PREFERENCES, EXCEPT TO SUGGEST THAT PART OF IMF GOLD MIGHT BE USED TO BEGIN SCHEME. (PRESTON TOLD US PRIVATELY THAT GERMANS STRONGLY OPPOSE GLOBALIZATION OF EC'S STABEX SYSTEM AND ARE PREPARING PROPOSAL FOR IMPROVEMENT OF IMF FACILITY). FRENCH SUPPORTED IMPROVEMENT OF EXISTING FACILITIES IN IMF, AND SEVERAL DELS INDICATED DOUBTS THAT EC-TYPE SCHEME COULD EASILY BE EXPANDED. COMMISSION REP (PHAN VAN PHI) MADE RATHER THIN PRESENTATION OF POSSIBLE DIFFERENCES BETWEEN GLOBAL SYSTEM AND EXISTING LOME MECHANISM, STRESSING POINT THAT LATTER WOULD HAVE TO REMAIN DISTINCT (WITH EC RECEIVING CREDIT AGAINST ANY GLOBAL OBLIGATIONS FOR ITS CONTRIBUTIONS TO LOME). US DEL SAID US FOUND EXPORT RECEIPT STABILIZATION CONCEPT WORTHY OF EXAMINATION AND DEVELOPMENT. HE NOTED THAT NUMBER OF QUESTIONS HAD BEEN RAISED ABOUT SCHEMES, INCLUDING COMPATIBILITY OF VARIOUS

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MECHANISMS WITH EACH OTHER AND POTENTIAL COSTS, AND SUGGESTED SECRETARIAT BE COMMISSIONED TO DO WORK ON THIS. ONLY ELEMENT THAT HAD WIDE AGREEMENT AMONG GROUP RE SPECIFICS OF EXPORT RECEIPTS STABILIZATION SCHEME WAS THAT IT SHOULD BE CONCESSIONAL FOR POOREST COUNTRIES AND SELF-FINANCING FOR OTHERS. CHAIRMAN PROPOSED TO PUT QUESTION TO JULY 18 XCSS AS TO WHETHER THE GROUP SHOULD PURSUE SUBJECT FURTHER OR REFER TO IMF.

7. INVESTMENT: IN RELATIVELY BRIEF DISCUSSION, AUSTRALIANS AND CANADIANS TOOK APPROACH THAT BEST WAY TO ENSURE ADEQUATE INVESTMENT WAS TO SOLVE PROBLEM OF MARKET INSTABILITY. US DEL, SUPPORTED BY GERMANS, SAID ADEQUATE INVESTMENT LIKELY TO BE SERIOUS PROBLEM IN FUTURE DUE TO FACTORS OTHER THAN PRICE INSTABILITY, SUCH AS INCREASINGLY LARGE DEVELOPMENT COSTS, DETERIORATING POLITICAL CLIMATE FOR FOREIGN AND PRIVATE INVESTMENT, AND LONG GESTATION PERIOD NEEDED TO BRING NEW INVESTMENTS ON LINE. HE NOTED US HAD PROPOSED THAT IBRD TAKE LEAD IN THIS AREA AND SUGGESTED GROUP CONSIDER POTENTIAL FOR NEW MEANS TO SOLVE POSSIBLE INVESTMENT PROBLEMS VIA, FOR EXAMPLE, MULTILATERAL CAPITAL SOURCES, INSURANCE MECHANISMS, CONSORTIA, AND MANAGEMENT CONTRACTS.

8. REPORT TO XCSS AND NEXT MEETING: CHAIRMAN AGREED TO MAKE BRIEF PERSONAL WRITTEN REPORT TO JULY 18 XCSS REFLECTING DIFFERENT CURRENTS OF OPINION IN GROUP. RATHER THAN ATTEMPT TO CLEAR REPORT, PRESTON SAID HE WOULD CIRCULATE IT BEFORE XCSS AND DELS WOULD HAVE CHANCE TO COMMENT ON OR DISSENT FROM IT AT XCSS ITSELF. IN VIEW OF TIME NEEDED TO PREPARE SECRETARIAT COMMODITY STUDIES AND REVIEW THEM IN CAPITALS, IT WAS AGREED TO HOLD SECOND MEETING OF GROUP IN EARLY FALL, AFTER UNGA

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## Message Attributes

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**Decaption Date:** 01 JAN 1960  
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**Disposition Approved on Date:**  
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